



Examiners' report

P6 Advanced Taxation (ZAF)

June 2008

The examination consisted of two compulsory questions (Question 1 for 25 marks and Question 2 for 35 marks). Candidates had to then elect any two of the three questions in Section B (each for 20 marks). The examination required mainly discussion and advice with some computation as well.

The performance of candidates overall, however, was disappointing with a large number appearing to be unprepared for the examination.

The poor performance of many candidates was exacerbated by a failure to carefully read the content and requirements of questions. Some of the poor performance can be attributed to candidates not showing workings for their answers.

Too many candidates continue to display their answers poorly. Each question should be started on a new page and candidates must give more thought to the layout and organisation of their answers.

Candidate answers to discussion questions tended to be repetitive and indicate that candidates had not fully grasped or considered all of the issues on the topic.

The paper did not appear to cause any time constraint difficulties as the vast majority attempted the necessary questions.

Section A – compulsory questions

Question 1

This 25-mark question addressed the ring-fencing of losses. It was very apparent that the candidates struggled with the issue of ring-fencing. Long answers not addressing the issues were generally supplied.

Part (a) covered a taxable income calculation excluding two ring-fenced trades. Candidates had difficulty performing this calculation and many simply added the losses from the other trades and ignored the profitable trade.

Part (b)(i) – explanation of the cause of an assessed loss. Only a few candidates referred to a loss being generated by expenditure exceeding income. No other issues concerning losses were considered.

Part (b)(ii) – provisions of section 20A

It was clear that the candidates were unaware of the provision of section 20A. This trend continued through the remaining parts (iii) to (v).

Question 2

All candidates answered this question. This question had three separate issues:

Issue 1: Thin capitalisation

Most candidates were unable to identify the issue of thin capitalisation. Some transposed the holdings of residents and non-residents resulting in answers which did not make sense. Often those candidates that identified the thin capitalisation issue confused the calculation with the transfer calculations.

This should have been a straightforward question for a well prepared student. Candidates demonstrated a lack of understanding of the basic provisions that were considered.

Issue 2: Controlled foreign companies, rebates and related deductions of taxes

Candidates did not show an understanding of the CFC legislation. No understanding of deduction of taxes versus claiming a rebate against normal tax was apparent.

The “third option” was generally presented as a resubmission of earlier comments.

Issue 3: Repairs versus improvements

This was the better handled issue and reflected the knowledge level of the candidates. Basic issues (more appropriate at the Fundamental level) are understood rather than any of the advanced topics.

Section B – elect two of the following three questions

Question 3

This 20 mark question assessed candidates on taxation issues related to trusts. Most candidates attempted this question.

This question was generally well handled.

Question 4

This 20 mark question addressed a number of separate issues, namely waiver of debt; connected person transactions (using spare parts, which are included in the definition of trading stock) and lastly a finance lease ending.

Candidates were unfamiliar with the provisions relating to waiver of debt. While the VAT knowledge appeared acceptable, the income tax consequences were poorly handled.

The transactions with spare parts made it apparent that candidates were unaware that spare parts form part of trading stock. Many candidates failed to achieve marks as a result of not addressing the stock issues (recoupments and deductions). The transactions with connected persons often had candidates addressing the VAT issues correctly but not applying the appropriate income tax rules.

The finance lease was poorly handled. The candidates did not distinguish between the treatment of a finance lease versus an operating lease.

Question 5

This 20 mark question required employment package structuring advice (partnership versus employment).

Candidates did not handle this question well. Very few candidates were able to demonstrate an after tax cash position to compare disposable incomes of the offers.